PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

NOVEMBER 10 - 23, 2001

Summary

The peso traded within a lower band during the weeks of November 12-23. Domestic interest rates, however, tapered off and the beleaguered sock market recouped some of its previous losses. In the banking sector, the commercial banking system posted a lower end-September ratio of non-performing loans (17.92%) relative to August (18.03%) as loan growth from inter-bank credits outpaced the continued month-on-month expansion in nominal levels of past due accounts. Although important issues remain, the government and Philippine National Bank (controlled by controversial businessman Lucio Tan) reported progress on a reverse privatization deal. On the fiscal front, recently-released numbers showed that the national government stayed within its programmed ten-month budget-deficit ceiling through expenditure control and lower-than-estimated interest costs. We also report on recent trade statistics, which showed the country's September import bill down by a steep 15.9% year-on-year. End Summary.

These weekly reviews are available on the Embassy’s web site (http://usembassy.state.gov/manila). Our next update will be available on or about December 7. We provide a longer and more detailed review of the Philippine economy in the October 2001 edition of our thrice-yearly Philippine Economic Outlook, which is also available on our web site.

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FOREX REPORT

The peso slipped further to a weaker P51.90-P52.18/US$ band during the two weeks of November 12-23, after trading in a range of P51.76-P52.09/US$ during the three weeks of October 22-November 9. Except for a brief up tick on November 16, the peso closed at weaker than P52/US$ from November 12-21. Traders cited a more bullish sentiment for the US$ on reports that U.S.-led strikes against Taliban forces in Afghanistan had begun to bear fruit. There were also reports of occasional foreign exchange purchases by the Bangko Sentral ng Pilipinas (BSP, the central bank) to service maturing obligations. The peso nevertheless closed above the P52/US$ during the last few days prior to the November 24-25 weekend, which traders attributed to firmer regional currencies, more encouraging fiscal numbers (see paras on fiscal update below), and seasonal flows from overseas workers' remittances as the Christmas holidays approached. They added that banks also unloaded foreign exchange holdings in preparation for the government's planned launching of dollar-linked peso notes in the coming week. The peso closed at P51.990 on November 23, 0.1% weaker than its closing rate of P51.915 on November 9.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
OCT 15	51.781	51.770	25.0
16	51.735	51.740	50.5
17	51.770	51.740	62.5
18	51.694	51.640	64.0
19	51.712	51.760	68.7
OCT 22	51.778	51.775	35.9
23	51.813	51.930	59.5

24	51.897	51.945	85.3
25	51.970	52.010	100.0
26	52.058	52.040	54.7
OCT 29	51.993	51.930	71.4
30	51.935	51.940	82.1
31	51.956	51.955	33.0
NOV 01	Philippine holiday		
02	Philippine holiday		
NOV 05	51.910	51.920	69.5
06	51.966	51.965	83.0
07	51.940	51.880	93.1
08	51.840	51.750	96.5
09	51.786	51.915	87.5
NOV 12	52.030	52.090	84.5
13	52.086	52.090	92.9
14	52.141	52.090	66.5
15	52.044	52.045	111.7
16	51.994	51.920	81.6
NOV 19	52.046	52.160	75.5
20	52.149	52.070	70.3
21	52.046	52.035	71.5
22	51.976	51.940	109.5
23	51.982	51.990	65.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Bid rates for government debt paper softened over the past two weeks. Analysts attributed the declines to a positive inflation outlook, a 50 basis-point cut (effective November 9) in overnight policy rates by the Bangko Sentral ng Pilipinas, a restrained fiscal gap for the January-October period, and encouraging news on anti-Taliban, U.S.-led strikes. They also cited expectations of further monetary easing (which BSP officials hinted may eventually include a relaxation in reserve requirements), combined with a lack of low-risk investment alternatives. Analysts expect the downward bias to continue in coming weeks.

After rejecting all bids across all maturities during its weekly (Monday) T-bill primary auctions on October 29 and November 5, the government's auction committee made a full award of its weekly P3.5 billion offerings during November 12 and November 19. By November 19, the average rate for the 91-day bills had softened to 9.525%, down 39.3 basis points from when the bills were last awarded on October 22 and also the lowest average rate seen since late September. By November 19, average rates for the 182-day and 364-day bills had softened to 10.997% and 11.981%, respectively -- their lowest rates since mid-August. (See Section II for detailed interest rate data.)

The government also offered P3.5 billion of new (versus re-issued) 7-year Treasury bonds in a primary auction on November 13, as well as offered P3.5 billion worth of new two-year bonds on November 20. Both offerings were oversubscribed. The government fully awarded the P3.5 billion scheduled offering of the two-year paper at a 12.75% coupon rate (compared with the 13.25% coupon rate when the government last made an original issuance of the two-year bonds in May). The government accepted P3 billion in bids for the 7-year paper at a coupon rate of 15.625% -- lower than the 16% rate at which the government last made an original issuance of the 7-year instruments in February, but reportedly higher than the 15% benchmark set by the government.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
SEP 24	9.577	11.767	12.669
OCT 01	9.730	11.939	no sales
OCT 08	9.627	11.929	12.757
OCT 15	9.803	12.054	no sales
OCT 22	9.918	12.179	13.062
OCT 29	no sales	no sales	no sales
NOV 05	no sales	no sales	no sales
NOV 12	9.811	11.702	12.602

NOV 19	9.525	10.997	11.981

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
AUG 29	12.9726	11.00 - 14.590
SEP 06	12.8884	11.00 - 14.590
SEP 13	12.8746	11.00 - 14.590
SEP 20	12.8561	11.00 - 14.467
SEP 28	12.8915	11.00 - 14.577
OCT 04	12.9743	11.00 - 14.730
OCT 11	12.9524	11.00 - 14.730
OCT 18	12.0239	11.00 - 14.803
OCT 25	13.0653	11.00 - 14.918
OCT 31	13.0653	11.00 - 14.918
NOV 08	13.0831	11.00 - 14.918
NOV 15	13.0464	11.00 - 14.803
NOV 22	12.9449	10.75 - 14.803

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Price Index (Phisix) drifted further down during the first three days of the November 12-16 trading week before inching upward on bargain-hunting, domestic interest-rate declines, and reported victories by U.S-led anti-Taliban forces. Stocks received their biggest one-day boost since May 11 on November 22, boosted further by reports that President Macapagal-Arroyo's recent U.S. trip had yielded over $1.7 billion in trade benefits and assistance commitments. The Phisix closed at 1,088.46 by November 23, its highest closing level since October 5.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
OCT 15	1040.80	391
16	1035.91	312
17	1043.01	312
18	1028.40	268
19	1019.44	200
OCT 22	1011.10	251
23	988.04	343
24	979.34	247
25	989.97	206
26	1002.52	299
OCT 29	994.84	863
30	995.14	346
31	993.35	326
NOV 01	Philippine holiday	
02	Philippine holiday	
NOV 05	997.50	541
06	988.56	422
07	988.79	286
08	996.02	472
09	999.79	413
NOV 12	993.23	326
13	989.96	329
14	997.52	488
15	1,015.86	537
16	1,033.34	513
NOV 19	1,042.02	419
20	1,025.47	464
21	1,033.86	570
22	1,067.06	708
23	1,088.46	495

Source: Philippine Stock Exchange

COMMERCIAL BANKS’ NPL RATIO AT 17.92% AS OF SEPTEMBER

According to the latest BSP estimates, the commercial banking system's ratio of non-performing loans (NPLs) to total loans eased somewhat to 17.92% as of September, after inching up to a new high of 18.03% in August. September's lower NPL ratio reflected a 0.9% (P14.7 billion) month-on-month increase in outstanding loans. The nominal level of NPLs, rising consecutively since the beginning of the year, inched up further by 0.3% (P957 million) month-on-month. The overall loan expansion during September mainly reflected higher inter-bank credits, which more than offset a P6.5 billion decline in loans to non-bank clients. As of September 2001, total loans had grown barely 0.3% year-on-year and had declined by 3.4% from the end-2000 level. Restructured loans (without which NPL ratios would be higher) increased by 1.4% (P1.5 billion) month-on-month and 31.5% (P26.2 billion) from September 2000. Restructured accounts equaled 6.96% of commercial banks' outstanding loans –- up from 6.93% in August, as well as from September 2000's 5.31% ratio.

Foreclosed assets -- up by 0.8% (P1.1 billion) month-on-month and by 24.6% (P29.3 billion) year-on-year -- equaled 4.73% of commercial banking system assets as of end-September, on par with the ratio in August but up from 4.07% a year before. Non-performing assets (NPAs, the sum of NPLs and foreclosed assets) expanded by 0.5% (P2.1 billion) month-on-month and by 17.6% (P64.5 billion) from 2000's comparable level to equal 13.71% of commercial banking resources (compared with the year-ago ratio of 12.49%). Loan loss reserves did not keep pace with the nominal increase in NPL levels during the month -- resulting in a somewhat lower coverage ratio of 43.49% relative to August's 43.62% figure.

Bankers doubt that NPL ratios have peaked, noting that loan growth has sputtered while more and more businesses struggle with weak external and domestic markets. One relatively large company (which specializes in vehicle-battery production and also owns the local franchises for Kentucky Fried Chicken and Mr. Donut) reportedly is having trouble servicing some P8 billion in debts and is seeking to restructure its obligations with creditor-banks. Looking forward, a continued deterioration in asset quality could increasingly constrict banks' margins, liquidity, and overall profitability.

A number of banks are studying the use of asset management companies to clean up their non-performing accounts. Reflecting the need to address non-performing loan and asset portfolios, a number of bills have been filed in both houses of the Philippine Congress seeking to establish a legal framework for the creation of "special purpose vehicles" (SPVs) and for investments in financial institutions' NPAs through asset securitization. While the initiatives are subject to further discussion and/or refinement (specifically tax and regulatory incentives), President Macapagal-Arroyo has included policy support for SPVs in her list of legislative priorities to the 12th Philippine Congress.

COMMERCIAL BANKS – SELECTED INDICATORS

	2001 Sept	2001 Aug	2000 Sept
In Billion Pesos			
Total Loan Portfolio (TLP) a/	1,572.6	1,557.9	1,567.7
Non-Performing Loans (NPL)	281.8	280.9	246.6
Loan Loss Reserves (LLR)	122.6	122.5	104.5
Restructured Loans (RL)	109.5	108.0	83.2
Foreclosed Assets (FA) b/	148.7	147.6	119.3
Non-Performing Assets (NPA) c/	430.5	428.4	366.0
Gross Assets (GA)	3,141.2	3,120.7	2,930.6
Selected Ratios (%)			
NPL/TLP	17.92	18.03	15.73
LLR/NPL	43.49	43.62	42.35
LLR/TLP	7.79	7.86	6.66
RL/TLP	6.96	6.93	5.31
FA/GA	4.73	4.73	4.07
NPA/GA	13.71	13.73	12.49

a/ Includes inter-bank credits
b/ Gross of allowance for probable losses
c/ Sum of NPLs and foreclosed assets

Source: Bangko Sentral ng Pilipinas

PNB AND GOP REPORT PROGRESS ON REVERSE PRIVATIZATION DEAL

The Lucio Tan Group and the Philippine government announced in a joint November 13 press release that they had reached "major agreement" on P23.9 billion in outstanding emergency assistance provided by the Bangko Sentral ng Pilipinas and the Philippine Deposit Insurance Corp. (PDIC) to Philippine National Bank (PNB) during the fourth quarter of 2000. Under the proposed arrangement, P7.8 billion of PNB's outstanding obligations will be the subject of a debt-to-equity swap at a conversion price of P40/share (versus PNB's P60/share par value). Another P10 billion will be offset against payables owed to PNB by government entities, and the remaining P6.1 billion restructured over a ten-year period. The government and LTG also announced that they had agreed on major changes in PNB's organization and management. Under the conversion plan, the government (which presently owns 16% of PNB) and the Lucio Tan Group (which controls about 70%) will each end up with 45% of the bank.

Both parties have agreed in principle on an "exit mechanism" -- i.e., a joint sale of PNB shares at the appropriate time. However, the detailed terms and mechanics of such an arrangement -- which will be crucial to a final agreement on PNB's total rehabilitation package -- have yet to be fleshed out and could prove controversial. Lucio Tan's group reportedly wants a right to match potential investors' purchase offer. The government, on the other hand, is wary of giving back control of PNB to the controversial businessman after providing state funds to rehabilitate the banking institution.

Meanwhile, PNB's financial condition continues to deteriorate. The bank reported a P5.3 billion net loss during the first nine months of 2001, 3.7 times the net loss it posted during 2000's comparable period. Bank officials attributed the profit squeeze to larger interest expenses to service emergency loans from government regulatory agencies, as well as to larger loan-loss provisions. The bank, the country's sixth largest asset-wise, reported a 53% NPL ratio as of September 2001.

SEPTEMBER IMPORTS SLUMP BY 15.9% YEAR-ON-YEAR

According to latest figures released by the government's National Statistics Office (NSO), September 2001's merchandise import bill (US$ terms) slumped by 15.9% year-on-year. September saw imports decline year-on-year across major commodity groupings -- with raw materials and intermediate inputs (39.3% of the total import bill) down 12.4%; capital goods (37.2% of imports) off by 15.8%; fuel/petroleum products down by 21.4%; and expenditures for consumer goods off by 12.7%.

The drop in imports allowed the trade-in-goods account to eke out a $232 million surplus during September, despite a 22% year-on-year slump in export revenues. This followed through a $37 million merchandise trade surplus in August (which broke from four consecutive months of trade deficits). On a cumulative nine-month basis, the import bill contracted by 2.7% year-on-year versus a steeper 14.1% decline in export revenues. The cumulative January-September 2001 trade surplus stood at $936 million, less than a fifth of 2000's comparable nine-month level ($4.2 billion).

BSP officials told the Embassy that the government now expects full year 2001 export revenues to drop by 15% and the merchandise import bill to contract by 3%. This expectation reflects a significant reversal from already downscaled July growth forecasts, when the Macapagal-Arroyo administration reduced its original export growth target from 4% to 1% and its forecasted import growth rate from 6% to 3%.

PHILIPPINE FOREIGN TRADE PERFORMANCE
(FOB Value in Million US$)

	Exports	Imports	BOT
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419

Mar	2,989	2,742	247
Apr	2,668	2,528	139
May	2,931	2,437	494
Jun	3,410	2,495	915
Jul	3,219	2,676	543
Aug	3,529	2,643	887
Sep	3,502	2,973	529
Jan-Sep 2000	27,867	23,628	4,239
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,607	262
Apr	2,246	2,693	(447)
May	2,600	2,681	(81)
Jun	2,578	2,609	(31)
Jul	2,594	2,660	(66)
Aug	2,621	2,584	37
Sep	2,731	2,499	232
Jan-Sep 2001	23,934	22,998	936
Cumulative Year-to-Year Growth (%)	(14.1)	(2.7)	(77.9)

Source: National Statistics Office

FISCAL UPDATE: GOP DEFICIT WITHIN TEN-MONTH PROGRAM

The national government's fiscal deficit stood at P133.3 billion as of October 2001 -- within the P137.7 billion ceiling programmed for the ten-month period -- according to the latest figures. Since September, the government's fiscal performance has been gauged against the revised fiscal program agreed in inter-agency budget committee meetings in July, reflecting reductions in both total revenue and expenditure targets (while retaining the full-year 2001 deficit ceiling at P145 billion).

On the revenue side, the Treasury exceeded its targeted income by P11.3 billion, attributed to higher returns on government deposits and more determined efforts to monitor dividend remittances on government equity investments. The Bureau of Treasury's performance contained the national government's aggregate revenue shortfall to P1.5 billion despite lower-than-targeted tax collections (off by P7.3 billion), privatization receipts (off by P3.7 billion), and government fees and charges (P1.1 billion below target). The Bureau of Internal Revenue met its October collection goal, keeping its P2.9 billion January-September collection shortfall from getting out of control. On the expenditure side, the government disbursed P5.9 billion less than the downward-revised program for the ten-month period. An estimated P4.4 billion of these "savings" came from lower-than-projected interest payments -- reflecting lower actual borrowings (at some expense to cash build-up targets) and lower-than-expected interest rates.

The current fiscal team has demonstrated a strong resolve to rein in spending to help keep the national government's deficit in check. The recently-released fiscal performance has raised optimism that the government may yet end the year more or less within its targeted P145 billion deficit ceiling for 2001. With privatization revenues thus far at barely 10% of the government's full-year P10 billion target, the deficit target will only be met if other revenue generating agencies manage to take up the slack and/or through further expenditure control during the two remaining months of the year.

Beyond the short-term fiscal challenges, analysts continue to emphasize that structurally weak public finances continue to pose a serious to the Philippines' long-term growth potential. Initiatives towards improving budgetary discipline and transparency (such as public sector procurement reforms and clearer criteria for project prioritization) are steps in the right direction. However, more aggressive revenue mobilization remains crucial to sustaining a deficit-reduction plan that supports the socio-economic needs of a growing population, as well as the demands of intensifying global competition.

National Government Fiscal Performance
(Amounts in Billion Pesos)

	2001 Full Yr.	January - October

	Prog. r/	Prog. r/	Actual	Diff.
REVENUES	558.2 a/	460.5	458.9	(1.5)
BIR	388.1 b/	323.1	320.2	(2.9)
Customs	105.1	85.4	81.0	(4.4)
Treasury	24.9 b/	21.7	33.0	11.3
Other Offices	40.2 b/	30.3	24.8	(5.6)
Privatization	10.0 c/	4.6	0.9	(3.7)
Fees and Charges	23.2 c/	19.8	18.8	(1.1)
EXPENDITURES	703.2 d/	598.2	592.2	(5.9)
Interest Payments	181.7	153.9	149.5	(4.4)
SURPLUS/(DEFICIT)	(145.0)	(137.7)	(133.3)	4.4

r/ Revised program as agreed by inter-agency budget committee in July 2001.
a/ Original full-year revenue program reduced by P10 billion.
b/ Full-year 2001 BIR target slashed by P20 billion, P10 billion of which to be offset by P5 billion upward adjustment in Treasury income and by P5 billion increase in income from other offices.
c/ Original privatization target increased by P3 billion and fees/charges by P2 billion.
d/ Slashed by P10 billion to match lowered revenue goal

Source: Bureau of Treasury